Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Friday, 04th October 2019

Morning Round Up

Core Portfolio Changes - Microsoft into Newmont Goldcorp

With trade no closer to a settlement, an expected increase in Brexit volatility into the October deadline and global economic data trending weaker, we continue to see risks building to the downside and limited catalysts to push markets beyond recent highs. As recessionary indicators build and the probability of a recession over the following 12-18 months ticks higher, we are looking to increase protection within our portfolio. As a result, we have increased our allocation to **Newmont Goldcorp** from 3% to 5%. Gold has historically offered attractive uncorrelated returns to equities and we would expect Newmont Goldcorp to produce similar performance. To accommodate the increased allocation, we have reduced our 5% weighting in **Microsoft** to 3%. Microsoft retains a strong multiyear growth investment case. However, taking a shorter outlook, we expect some weakness due to macro headwinds and it has delivered c. 35% return year to date.

PepsiCo produce strong organic revenue growth

PepsiCo released results yesterday which were well received by the market finishing the day up 3%. The business, which owns brands such as Pepsi, Lays, Tropicana and Quakers, deliver $17.2bn in sales. This represents 4.3% organic growth (est. 3.4%), well ahead of market expectations. Frito-Lays, its snack and crisp division, lead growth at 5.5% with North America Beverages grew by 3%. Earnings per share for the quarter also beat expectations at $1.56 (est. $1.50). Management reiterated guidance for its full year with organic revenue growth of 4% and a decline in EPS of 1% to between $5.50 and $5.52.

Reports indicate a boost iPhone 11 output

Reports overnight from Asia indicate that Apple has requested suppliers to increase iPhone 11 production by 8mln units or a 10% increase. Consumers are responding positively to Apple's cheapest iPhone 11 offering, while the top of the range Pro Max is underperforming with production revised down. Apple has had a significant run year to date since its profit warning in January, as investors continue to like the diversification of revenues with increased focus on Apple Services. However, the hardware business remains the major source of revenues, iPhone alone representing c. 60% of revenues,

Source: Bloomberg, CF Research October 2019

Key Upcoming Events

17/10/2019 ECB Leaders Summit
31/10/2019 Brexit Day

Market View

European shares followed US shares higher this morning despite the weaker than expected US ISM Non-Manufacturing number yesterday afternoon. As the market digested the number, its interpretation shifted to optimism with it again perceiving that poorer data meant more accommodative monetary policy from the Fed. Non-farm payrolls will be as important as ever later this afternoon with expectations of 145,000 newly jobs created last month. Elsewhere, the central bank in India cut rates today, the fifth cut in this cycle. The pound remains range bound with EURGBP sitting between £0.88 - £0.90.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26201	122.42	0.47%	12.32%
S&P	2911	23.02	0.80%	16.11%
Nasdaq	7872	87.02	1.12%	18.64%
Nikkei	21410	68.46	0.32%	6.97%
Hang Seng	25831	-278.94	-1.07%	-0.06%
Brent Oil	58.15	0.44	0.76%	8.09%
WTI Oil	52.84	0.39	0.74%	16.36%
Gold	1509	3.61	0.24%	17.65%
€/$	1.0973	0.0008	0.07%	-4.31%
€/£	0.8897	0.0007	0.08%	-1.03%
£/$	1.2333	0.0001	0.01%	-3.30%

	Yield	Change
German 10 Year	-0.594	-0.004
UK 10 Year	0.455	-0.015
US 10 Year	1.524	-0.010
Irish 10 Year	-0.047	-0.008
Spain 10 Year	0.13	-0.006
Italy 10 Year	0.797	-0.030

Source: Bloomberg, CF Research October 2019

Aryzta - Sale Price of Picard Disappointing Closing price €0.65

News

Aryzta management announced this morning that they have agreed to sell the majority (43%) of its Picard stake for €156m which combined with its prior dividend income of €91m (May 2018), represents a total cash inflow of €247m from its Picard holding. The exit multiple implies 9.2x trailing EBITDA. Aryzta will retain a 4.5% stake in Picard post the transaction worth c.€21m.

Management comment that post the sale of this stake, Aryzta will have realised 85% of its asset disposal objective. Aryzta acquired a 49% stake in Picard for €446.6m in March 2015 under previous CEO, Owen Killian.

Aryzta raised €740m in equity capital earlier this year and its most recent trading update reported 1.3% organic revenue growth despite continued weakness in North American volumes. Its full year guidance is for low-mid single digit growth in EBITDA.

Comment

For Aryzta shareholders in 2019, it certainly seems like bad things come in threes. Lets hope it ends here.

When new management took charge, they didn't wish to raise capital, wanted to restructure and grow the business and wanted to sell non-core assets without destroying much value. In 2019, they raised a significant amount of capital, the US market continues to drag despite "restructuring" and now they have sold off what we view as the groups high profit margin asset for a valuation that is significantly below acquisition price and below that of the valuation it was rumoured to attract in 2017/2018 of €330m.

Aryzta is a very difficult stock to value given its many challenges including low return on equity, it's extremely low valuation and somewhat constantly changing strategy by management. For now, we continue to give management the benefit of doubt having backed them at the recent fund raising (€0.88) with that recommendation now c.20% offside.

Darren McKinley, CFA | Senior Equity Analyst

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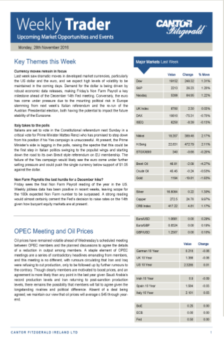

Weekly Trader

On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments.

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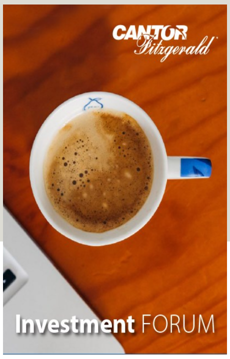

Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Aryzta: Aryzta produces and retails specialty bakery products.

Historical Recommendation:

Aryzta: We changed our recommendation for Aryzta to Outperform from Underperform on 16/11/2018

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